



# **Legislative Audit Division**

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State of Montana

Report to the Legislature

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March 2004

## **Financial-Compliance Audit For the Fiscal Year Ended June 30, 2003**

### **Office of Public Instruction**

**This report contains no recommendations related to the Office of Public Instruction.**

**Direct comments/inquiries to:  
Legislative Audit Division  
Room 160, State Capitol  
PO Box 201705  
Helena MT 59620-1705**

**04-18**

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## **FINANCIAL-COMPLIANCE AUDITS**

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2003, will be issued by March 31, 2004. The Single Audit Report for the two fiscal years ended June 30, 2001, was issued on March 26, 2002. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator  
Office of Budget and Program Planning  
State Capitol  
Helena MT 59620  
Phone (406) 444-3616

Legislative Audit Division  
Room 160, State Capitol  
PO Box 201705  
Helena MT 59620-1705

### **MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE**

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# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel



Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
Tori Hunthausen, IS Audit & Operations  
James Gillett, Financial-Compliance Audit

March 2004

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report for the Office of Public Instruction (office) for the fiscal year ended June 30, 2003. This report contains our Independent Auditor's Report and the Office's financial schedules. The objectives of our audit were to: (1) determine the offices compliance with applicable laws and regulations; (2) make recommendations for improvement in the office's internal management and internal controls; (3) determine if the office's financial schedules present fairly the results of its operations for the fiscal year ended June 30, 2003; and (4) determine the implementation status of the prior audit recommendations.

The Office of Superintendent of Public Instruction is established in Article VI, Section 1, of the Montana Constitution. The Superintendent of Public Instruction is an elected official responsible for the general supervision of K-12 public schools and districts within the state of Montana. In addition, the superintendent is the governing agent and executive officer for K-12 vocational education in the state. The office, which is comprised of approximately 151 full-time equivalent employees, provides services to school-age children and to teachers in more than 436 school districts.

The office records its financial activity in two programs, which include the State Level Activities program, and Local Education Activities program. The State Level Activities program includes the activities of several large federal programs. These programs are Title I and Title II; Child Nutrition and Commodities; Vocational Education (Carl Perkins); Individuals With Disabilities Education Act (IDEA), and Part B (IDEA B).

The Local Education Activities program is established to account for distribution of state and federal funds to local education agencies, which are primarily schools. Under this program, schools receive distributions for state support to schools, special education, and traffic education.

To facilitate financial reporting and communication for these and other programs, the office operates the Montana Automated Education Financial and Information Reporting System (MAEFAIRS) and the Montana Educational Telecommunications Network (METNET).

A list of Appointed and Administrative Officials having oversight responsibilities with respect to Office Of Public Instruction can be found beginning on page i.

Beginning on page A-1, you will find the Independent Auditor's Report followed by the financial schedules and accompanying notes. We issued an unqualified opinion on the office's schedules, which means the reader can rely on the presented information.

This report does not contain any recommendations to the office. Any issues resulting from this financial audit have been discussed with the office's management. The office's response to this report is on page B-1.

We thank the Superintendent and her staff for their assistance and cooperation during the audit.

Respectfully submitted,

*Signature on File*

Scott A. Seacat  
Legislative Auditor

## Appointed and Administrative Officials

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### Office of Public Instruction

Linda McCulloch, Superintendent

Dennis Williams, Deputy Superintendent

Madalyn Quinlan, Chief of Staff

Cathy Warhank, Chief Legal Counsel

Nancy Coopersmith, Assistant Superintendent, Department of  
Education Services

Spencer Sartorius, Assistant Superintendent, Department of  
Education Services

Kathy Fabiano, Assistant Superintendent, Department of Operations

For additional information concerning the Office of Public  
Instruction, contact Dennis (Bud) Williams, Deputy Superintendent,  
at:

1227 11<sup>th</sup> Avenue  
PO Box 202501  
Helena MT 59620-2501  
(406) 444-3095  
e-mail: [budwilliams@state.mt.us](mailto:budwilliams@state.mt.us)

Members of the audit staff involved in this audit were Pearl Allen,  
Jeane Carstensen-Garrett, Chris Darragh, Melissa Heinert,  
Brenda Kedish, Amber Long, Emlyn Neuman-Javornik,  
Alexa O'Dell, and Tiowna Sherrill.

Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel



Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
Tori Hunthausen, IS Audit & Operations  
James Gillett, Financial-Compliance Audit

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Schedule of Changes in Fund Balances & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out of the Office of Public Instruction for the fiscal year ended June 30, 2003. The information contained in these financial schedules is the responsibility of the office's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the office's assets, liabilities, and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Office of Public Instruction for the fiscal year ended June 30, 2003, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

*Signature on File*

James Gillett, CPA  
Deputy Legislative Auditor

February 1, 2004



OFFICE OF PUBLIC INSTRUCTION  
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Agency Fund</u>
FUND BALANCE: July 1, 2002	\$ <u>(254,520)</u>	\$ <u>(6,612,825)</u>	\$ <u>(2,514)</u>	\$ <u>28,308</u>	\$ <u>138,295</u>	
PROPERTY HELD IN TRUST: July 1, 2002						\$ <u>48,017</u>
ADDITIONS						
Budgeted Revenues & Transfers-In	659	4,585,097	119,410,537	100,928	1,481,602	
NonBudgeted Revenues & Transfers-In	7,982	160,296	19,320		2,270	
Prior Year Revenues & Transfers-In Adjustments	(40,792)	(91,108)				
Direct Entries to Fund Balance	518,675,474	41,525,416				
Additions to Property Held in Trust						97,018
Total Additions	<u>518,643,323</u>	<u>46,179,701</u>	<u>119,429,857</u>	<u>100,928</u>	<u>1,483,872</u>	<u>97,018</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	521,930,700	52,511,931	119,437,343	90,377	1,609,958	
NonBudgeted Expenditures & Transfers-Out		147,422		9,604	143,532	
Prior Year Expenditures & Transfers-Out Adjustments	656			(6,776)	(113,765)	
Reductions in Property Held in Trust						91,877
Total Reductions	<u>521,931,356</u>	<u>52,659,353</u>	<u>119,437,343</u>	<u>93,205</u>	<u>1,639,725</u>	<u>91,877</u>
FUND BALANCE: June 30, 2003	\$ <u><u>(3,542,553)</u></u>	\$ <u><u>(13,092,477)</u></u>	\$ <u><u>(10,000)</u></u>	\$ <u><u>36,031</u></u>	\$ <u><u>(17,558)</u></u>	
PROPERTY HELD IN TRUST: June 30, 2003						\$ <u><u>53,158</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-7.

OFFICE OF PUBLIC INSTRUCTION  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Total</u>
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>						
Licenses and Permits		\$ 169,835				\$ 169,835
Taxes					\$ 2,270	2,270
Charges for Services	\$ 600	89,669		\$ 100,928	635,511	826,708
Investment Earnings		18,593				18,593
Sale of Documents, Merchandise and Property	659					659
Miscellaneous	(33,410)	18,014	\$ 19,320			3,924
Grants, Contracts, Donations and Abandonments		149,282				149,282
Other Financing Sources		4,208,892	3,399,352			7,608,244
Federal			116,011,185		846,091	116,857,276
Total Revenues & Transfers-In	<u>(32,151)</u>	<u>4,654,285</u>	<u>119,429,857</u>	<u>100,928</u>	<u>1,483,872</u>	<u>125,636,791</u>
Less: Nonbudgeted Revenues & Transfers-In	7,982	160,296	19,320		2,270	189,868
Prior Year Revenues & Transfers-In Adjustments	<u>(40,792)</u>	<u>(91,108)</u>				<u>(131,900)</u>
Actual Budgeted Revenues & Transfers-In	659	4,585,097	119,410,537	100,928	1,481,602	125,578,823
Estimated Revenues & Transfers-In	5,000	11,055,210	119,964,815	215,000	1,615,000	132,855,025
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (4,341)</u>	<u>\$ (6,470,113)</u>	<u>\$ (554,278)</u>	<u>\$ (114,072)</u>	<u>\$ (133,398)</u>	<u>\$ (7,276,202)</u>
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b>						
Licenses and Permits		\$ (780,175)				\$ (780,175)
Charges for Services		(531)		\$ (114,072)	\$ (79,489)	(194,092)
Investment Earnings		(4,981,407)				(4,981,407)
Sale of Documents, Merchandise and Property	\$ (4,341)					(4,341)
Grants, Contracts, Donations and Abandonments		(8,000)				(8,000)
Other Financing Sources		(700,000)	\$ (12,748)			(712,748)
Federal			(541,530)		(53,909)	(595,439)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (4,341)</u>	<u>\$ (6,470,113)</u>	<u>\$ (554,278)</u>	<u>\$ (114,072)</u>	<u>\$ (133,398)</u>	<u>\$ (7,276,202)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-7.

OFFICE OF PUBLIC INSTRUCTION  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

PROGRAM (SUBCLASS) EXPENDITURES & TRANSFERS-OUT	LOCAL EDUCATION ACTIVITIES	STATE LEVEL ACTIVITIES	Total
Personal Services			
Salaries		\$ 5,504,315	\$ 5,504,315
Employee Benefits		1,443,109	1,443,109
Personal Services-Other		32,595	32,595
Total		<u>6,980,019</u>	<u>6,980,019</u>
Operating Expenses			
Other Services	\$ 303,416	4,897,250	5,200,666
Supplies & Materials		368,968	368,968
Communications		269,150	269,150
Travel	2,001	699,092	701,093
Rent		302,614	302,614
Utilities		818	818
Repair & Maintenance		54,625	54,625
Other Expenses		1,985,561	1,985,561
Total	<u>305,417</u>	<u>8,578,078</u>	<u>8,883,495</u>
Equipment & Intangible Assets			
Equipment		19,697	19,697
Total		<u>19,697</u>	<u>19,697</u>
Local Assistance			
From State Sources	567,171,107	15,330	567,186,437
Total	<u>567,171,107</u>	<u>15,330</u>	<u>567,186,437</u>
Grants			
From State Sources	428,772		428,772
From Federal Sources	110,062,562		110,062,562
Total	<u>110,491,334</u>		<u>110,491,334</u>
Transfers			
Accounting Entity Transfers	2,200,000		2,200,000
Total	<u>2,200,000</u>		<u>2,200,000</u>
Total Expenditures & Transfers-Out	<u>\$ 680,167,858</u>	<u>\$ 15,593,124</u>	<u>\$ 695,760,982</u>
EXPENDITURES & TRANSFERS-OUT BY FUND			
General Fund	\$ 517,690,042	\$ 4,241,314	\$ 521,931,356
State Special Revenue Fund	52,312,844	346,509	52,659,353
Federal Special Revenue Fund	110,164,972	9,272,371	119,437,343
Enterprise Fund		93,205	93,205
Internal Service Fund		1,639,725	1,639,725
Total Expenditures & Transfers-Out	<u>680,167,858</u>	<u>15,593,124</u>	<u>695,760,982</u>
Less: Nonbudgeted Expenditures & Transfers-Out		300,558	300,558
Prior Year Expenditures & Transfers-Out Adjustments		(119,885)	(119,885)
Actual Budgeted Expenditures & Transfers-Out	<u>680,167,858</u>	<u>15,412,451</u>	<u>695,580,309</u>
Budget Authority	695,901,514	19,871,466	715,772,980
Unspent Budget Authority	<u>\$ 15,733,656</u>	<u>\$ 4,459,015</u>	<u>\$ 20,192,671</u>
UNSPENT BUDGET AUTHORITY BY FUND			
General Fund	\$ 924,935	\$ 103,352	\$ 1,028,287
State Special Revenue Fund	4,438,155	534	4,438,689
Federal Special Revenue Fund	10,370,566	4,345,075	14,715,641
Enterprise Fund		9,623	9,623
Internal Service Fund		431	431
Unspent Budget Authority	<u>\$ 15,733,656</u>	<u>\$ 4,459,015</u>	<u>\$ 20,192,671</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-7.

# Office of Public Instruction

## Notes to the Financial Schedules

### for the Fiscal Year Ended June 30, 2003

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1. **Summary of Significant Accounting Policies**

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**Basis of Accounting**

The office uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental Funds in applying the modified accrual basis, the office records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the office to record the cost of employees' annual leave and sick leave when used or paid.

The office uses accrual basis accounting for its Proprietary and Fiduciary Fund categories. Under the accrual basis, as defined by state accounting policy, the office records revenues in the accounting period earned, when measurable, and records expenses in the period incurred, when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the office receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

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**Basis of Presentation**

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

## Notes to the Financial Schedules

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Office accounts are organized in funds according to state law applicable at the time transactions were recorded. The office uses the following funds:

### **Governmental Fund Category**

**General Fund** - to account for all financial resources except those required to be accounted for in another fund. General Fund activity primarily involves distributions of state support to schools.

**State Special Revenue Fund** - to account for proceeds of specific nonfederal revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific purposes. Office State Special Revenue Funds include traffic safety education and distributions of state support to schools made through the Guarantee Account.

**Federal Special Revenue Fund** – to account for federal funds received by the office. Federal Special Revenue Funds account for activities of Title I and Title II, Child Nutrition and Commodities, Individuals With Disabilities Education Act, and various other federal grants.

### **Proprietary Fund Category**

**Internal Service Fund** - to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. The Office Internal Service Fund contains the indirect cost pool.

**Enterprise Fund** - to account for operations financed and operated in a manner similar to private business enterprises, for which a fee is charged to external users. The Office Enterprise Fund includes the advanced driver's education program.

### **Fiduciary Fund Category**

**Agency Fund** – to account for resources held by the state in a custodial capacity. The Office records custodial cash accounts for student vocational education organizations in the Agency Fund.

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### 2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The Office has authority to pay obligations from the statewide General Fund within its appropriation limits. The Office expends cash or other assets from the statewide fund when it pays General Fund obligations. The Office's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for fiscal year ended June 30, 2003.

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### 3. Direct Entries to Fund Balance

Direct entries to fund balances in the General and Special Revenue Fund types include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. Direct entries to fund balance in the General Fund represent moneys made available for state support to schools. In the State Special Revenue Fund, direct entries to fund balance represent a portion of the fees collected by the Department of Justice for driver's licenses and duplicate licenses that are made available to the office for distribution to schools for traffic and safety education. It also includes certification fees collected by the office that are statutorily available to the Board of Public Education for advisory council and research fund purposes. In addition, moneys made available for distribution to schools through the Guarantee Account are recorded as direct entries to fund balance.

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### 4. Guarantee Account

The negative fund balance in the Special Revenue Fund at June 30, 2003, does not indicate overspent appropriation authority. The office pays obligations from the Guarantee Account, yet the revenue designated to fund the obligations is not included on the office's financial schedules because they are administered by another agency. The office obtained an inter-entity loan of \$16.3 million from the General Fund in order to complete the required distributions from the Guarantee Account by June 30, 2003. The loan was paid off in October 2003 when cash was available through revenue distributions administered by the Department of Natural Resources and Conservation.



— **Montana Office of Public Instruction** —

**Linda McCulloch**  
State Superintendent

March 5, 2004

TO THE LEGISLATIVE AUDIT COMMITTEE  
OF THE MONTANA STATE LEGISLATURE

I am extremely proud of this report from the Legislative Audit Division.

It has taken a considerable amount of effort and commitment from the members of my fiscal staff to accomplish their goal of a report with no recommendations. I'd like to take this opportunity to recognize them for the excellent job they do.

We appreciate the professionalism extended by your staff during the audit.

If we can provide additional information, please contact us.

Sincerely,

A handwritten signature in cursive script that reads "Linda McCulloch".

Linda McCulloch  
Superintendent of Public Instruction

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